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February 15, 2011

AGENDA ITEM 3a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Health Care Reform Update

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information Only

IV. BACKGROUND:

This agenda item provides updates on the following provisions of the Affordable Care Act (ACA):

- Early Retiree Reinsurance Program
- Extension of Dependent Coverage Up to Age 26
- Rescissions
- Preventive Services
- Essential Health Benefits

V. ANALYSIS:

Early Retiree Reinsurance Program (ERRP)

The ERRP provides reimbursement to participating employment-based plans for a portion of the cost of health benefits for early retirees who are age 55 and older and not eligible for Medicare, and their spouses, surviving spouses, and dependents. The U.S. Department of Health and Human Services (HHS) certified the CalPERS ERRP application last September.

On December 22, 2010, CalPERS received its first ERRP reimbursement in the amount of $57,820,688. Health Benefits Branch (HBB) staff expects to submit the next quarterly reimbursement request to HHS in mid-March. On January 13, 2011, HHS posted a Frequently Asked Question (FAQ) stating that approximately $4 billion of the $5 billion remains available for disbursement.

Extension of Dependent Coverage Up To Age 26

Between mid-September and the end of December 2010, HBB staff enrolled or re-enrolled 28,769 dependents, up to age 26. Adding these young adults to our

program resulted in a 2011 health insurance premium increase of less than 1 percent. Health benefits for these dependents were effective January 1, 2011.

On January 3, 2011, HBB staff submitted the Board-approved Extension of Dependent Coverage regulation package to the Office of Administrative Law (OAL). The OAL has 30 working days to review and approve the package. If there are no changes within these 30 days, the OAL files the regulations package with the Secretary of State for inclusion in the California Code of Regulations (CCR).

Rescissions

Effective January 1, 2011, the ACA and subsequent interim regulations and guidance generally prohibit the rescission of health coverage due to reduction in time base or hours worked.

To ensure compliance with this new federal requirement, HBB staff issued a Circular Letter in December 2010, informing employers that beginning January 2011, a cancellation or discontinuance of health coverage due to a reduction in time base or hours worked must have a prospective effective date. Other retroactive mandatory cancellations for changes that take place in an employee's life - such as death of a family member, change in marital status, separation from employment or other circumstances can continue to be processed.

HBB staff is preparing a regulations package amending the Public Employees' Medical and Hospital Care Act (PEMHCA) in the CCR to conform to the new federal law.

Preventive Services

HBB staff recently submitted a question regarding the use of in-network ambulatory surgery centers for colorectal cancer preventive services to the HHS. On December 22, 2010, HHS responded via the FAQ link on their website. It is CalPERS practice to not impose a co-payment for colorectal cancer preventive services when performed in an in-network ambulatory surgery center. The HSS FAQ response now expressly approves our practice to charge a $250 co-payment for the same preventive service provided at an in-network outpatient hospital setting. HHS acknowledged that health plans may use reasonable medical management techniques to guide patients toward a particular high-value setting, such as an ambulatory care setting, for providing preventive care services, provided the plan accommodates any individual for whom it would be medically inappropriate to have the preventive service provided in an ambulatory setting.

Essential Health Benefits

In mid-January, HHS announced that the Institute of Medicine (IOM) will hold a closed-door meeting, followed by a two-day public briefing, to determine what are

considered "essential health benefits" under the ACA. The process aims to help HHS decide which medical services and equipment HHS will require insurers to cover by 2014.

The ACA defines the following as essential health benefit categories:

- Ambulatory patient services
- Emergency services
- Hospitalization
- Laboratory services
- Maternity and newborn care
- Mental health and substance use disorder services, including behavioral health treatment
- Pediatric services, including oral and vision care
- Prescription drugs
- Preventive and wellness services and chronic disease management
- Rehabilitative and habilitative services and devices

The IOM will publish recommendations for HHS by September 2011, and HHS will issue its proposed rules by the end of the year, giving insurance companies time to adjust plans before the provisions take effect in 2014. The final decision on which products and services must be covered has wide implications for health plans, employers, members, drug and device manufacturers, physicians, and other health care stakeholders. HBB staff will analyze these regulations when released to determine the impact to our program.

VI. STRATEGIC PLAN:

This directly relates to Strategic Goal XII: Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access, and cost.

VII. RESULTS/COSTS:

This is an information item only.

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